

**ST.MARY'S UNIVERSITY  
FACULTY OF BUSINESS  
DEPARTMENT OF ACCOUNTING**

**AN ASSESMENT OF CASH MANAGEMENT SYSTEM IN  
BUNNA INTERNATIONAL BANK S.C**

**BY**

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**JUNE 2014  
SMU  
ADDIS ABABA**

**AN ASSESMENT OF CASH MANAGEMENT SYSTEM IN  
BUNNA INTERNATIONAL BANK S.C**

**A SENIOR ESSAY SUBMITTED  
TO THE DEPARTMENT OF ACCOUNTING  
BUSINESS FACULTY**

**ST.MARY'S UNIVERSITY**

**IN PARTIAL FOR FULFILLEMENT OF THE REQUIREMENTS  
FOR THE AWARD OF BACHELOR OF ART DEGREE IN  
ACCOUNTING**

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# Chapter One

## Introduction

### 1.1 Background of the Study

The cash management process, which historically has been a mechanism for reducing instances of fraud, misappropriation and errors, has recently become more extensive, addressing all the various risks faced due to improper management of cash by organizations. It is now recognized the sound cash management process is critical to organization's ability to meet its established goals and objectives, and to maintain its financial ability.

It will also help to reduce the possibility of significant errors and irregularities. Many people interpret the term cash management as the steps taken by business to manage the cash efficiently in the broadest sense, an organization's cash management structure consists of the policies and procedures with respect to cash to provide reasonable assurance that the organization's related objectives will be achieved. Cash management extends beyond the accounting and a financial function its scope is companywide and touches all activities of the organization.

Cash is a necessary asset of every company. Most companies include cash equivalents which are similar to cash as part of cash applying principles of cash management to both cash and cash equivalents is important. Cash and cash equivalents are the most liquid of all assets and are easily hidden and moved. An effective system of cash management protects misappropriation which arises from cash receipts and cash disbursements. (cash policy of the bank).

### 1.2 Back Ground of Bunna International Bank

Bunna International Bank S.C. has joined the Banking industry of Ethiopia following the favorable economic developments witnessed in the country during

the last decade and the relentlessly growing needs for Financial Services.

The Bank has obtained its license from the National Bank of Ethiopia (NBE) on June 25, 2009 in accordance with Licensing & Supervision of Banking Business Proclamation No. 592/2008 and the 1960's Commercial Code of Ethiopia.

The Bank officially commenced its operation on October 10, 2009 with subscribed & paid up capital of Birr 308 million and Birr 156 million, respectively.

Moreover, the Bank has more than 11,200 shareholders, which makes it one of the strong and public based private Banks in Ethiopia.

## **Vision**

"Our vision is to be a public-powered and uniquely flavored Bank."

## **Mission**

"Our mission is to provide distinctly flavored banking services with unparalleled commitment to enhance values of our key stakeholders and ensure public trust through diversification, state-of-the-art technology, and ethically motivated and knowledge-driven human capital."

## **Values**

- > BIB persistently encourages the prevalence of a team spirit, so as to be truly successful;
- > BIB considers its employees to be the greatest asset and resources of the bank;
- > BIB is so committed to meritocracy that it promotes professionalism and rewards excellence in performance;

- > BIB promotes "Out of the box" thinking and invests in feasible ideas;
- > BIB promotes good corporate governance;
- > BIB respects diversification;
- > BIB works towards sustainable growth and profitability;
- > BIB is committed to high quality; and
- > As corporate citizen, BIB believes in discharging its corporate, social and environmental responsibilities.

### Motto

Bank of the Visionaries'

### **1.3 Statement of the Problem**

Cash management essentially means dealing with an organization's cash so its use provides the most value to the business. To be optimal, companies must use different methods of cash management techniques like preparation of cash budget, investing idle cash in different financial instruments and etc. (Bunna international bank Cash Manual).

A good cash management practice helps the bank in the following ways,

- > Increase the effectiveness and efficiency of the Bank.
- > Increase the reliability of financial reporting.
- > Helps in complying with application of laws and rules.
- > Reduce costs related with holding idle cash.
- > Help the bank to have a proper cash flow system. (Bunna international bank Cash Manual).

When we, the team of student researchers explored information from bunna bank to identify and formulate research problem, We have identified that the bank has a problem of proper cash management system. As per the information gathered from the bank staffs the existence of this problem is justified by the occurrence of cash shortage and overage in its branch and huge cost of bank charges and a liquidity problem in both branches and head office.

These problems led the team to raise question on the bank's cash management system .Due to this, the team of student researchers proposed to asses "to what extent the banks cash management system is proper and adequate for its business strategy?"

#### **1.4 Research questioners**

To find the solution of the main research problem, the following possible causes are raised as research questioners.

1. How dose Bunna Bank Manages its cash
2. How the current cash management system influences the banks business operation?
3. What mechanisms dose the bank use for cash custody?
4. How does the Head office disperse cash to branches and vice versa?
5. Are the banks current cash management policies related to any of the theoretical aspect or guidelines?
6. How the current cash management system of the bank is cost effective?
7. What is the effect of cash management on the performance of the Bank?

#### **1.5 Research objective**

##### **1.5.1 General objective of the study**

This study was conducted to assess the banks experience in managing its liquid asset which is cash, to identify the real causes of these research problems and to analyze the effect of this cash management on the achievements of its objectives.

##### **1.5.2 Specific objective**

To achieve the above general objective, the following specific research objective was formulated to answer each of the research questions.

1. To identify and describe how the bank manages its cash.

2. To identify the impact of the current cash management system on the business of the bank.
3. To identify the mechanism the bank uses for cash custody.
4. To identify how the bank disperse cash both from and to head office.
5. To identify whether or not the banks current cash management policy is related to any of the theoretical aspect or guidelines?
6. To identify that the current cash management system of the bank cost effective.
7. To identify the effect of cash management on the performance of the bank.

### **1.6 Scope of the study.**

The main concern of the study is to examine the Bunna Bank's cash management adequacy, effectiveness and efficiency. It is not possible to encompass all aspects of cash management topics and procedures in this short time hence, the research was emphasizes on assessment of cash management in the bank.

### **1.7 Limitation of the study.**

To conduct this study the research team has faced the following limitations.

- > Shortage of time and finance to dig out and explore all possible sources.

### **1.8 Significance of the study**

- It helps as a base for other researchers and analysis who would like to conduct research on the cash management of the bank in depth.
- It gives some information about efficient and effective cash managing.
- It creates awareness to how management can improve the present and future activities of cash management of the Bank and how to use this scarce resource for different investments and daily operations.

### **1.9.1 Research Design.**

A descriptive survey study design was used to conduct the study, because we are only interested to describe the real impacts of cash management to identify real causes of problems, interpret the data collected and propose a possible recommendation.

### **1.9.2 Type and source of data**

Data on the cash management system was collected primarily from officials and from secondary data like financial reports of the bank.

### **1.9.3 Population and sampling Design.**

The study was conducted by taking the head office of the bank located at Aratkillu around Birhanena Selam printing press which has nearly 60 staffs in order to get information how cash management process works from the employees point of view and out of which we considered a sample of 15 employees on a convenience and Judgmental sampling basis. We used the stated sampling technique in order to save time and collect data from staffs directly involved in cash operation in the bank.

### **1.9.4 Method of data collection.**

In our study we have collected both primary and secondary data. The primary data was collected through personal interview and through questioners based on the objective of the study.

Research Questioners included both close and open ended questions, which was distributed to the selected sample respondents.

Secondary data was collected from different reports in the bank like annual report and different financial reports.

The data on cash shortage and overage, bank charges, and idle cash of the bank was collected and summarized by different frequency distribution and Percentage Distribution.

#### **1.10. Organization of the paper**

The first chapter consists of the introductory part; it contains background of the study, statement of the problem, objective of the study, significance of the study, research methodology, scope and limitation of the study and organization of the paper. The second chapter presents review of related literature with the topic and the third chapter presents discussion of data which was collected by interview and from different reports. Finally in the last chapter the conclusion and recommendation of the research was presented.

## Chapter Two

### 2. Review of Related Literature

This chapter deals with the literatures related to the nature of cash and strong cash management. Successful cash management involves not only avoiding insolvency or bankruptcy, but also reducing days in account receivables, increasing collection rates, selecting appropriate short-term investment, and increasing days cash on hand all in order to improve a company's overall financial profitability.

The term cash management is refers to planning, controlling, and accounting for cash transactions and other financial assets.

It is also the management of the cash balances of a concern in such a manner as to maximize the availability of cash not invested in fixed assets or inventories and to avoid the risk of insolvency. According to Keynes there are three motives for holding cash: the transactions motive, the precautionary motive, and the speculative motive. The most useful technique of cash management is the cash budget.

#### 2.1 Meaning and Concept of cash.

Cash is the most liquid of assets; it is the standard of medium of exchange and the basis for measuring and accounting for all other items. Companies generally classify cash as a current asset. Cash consists of coin, currency, and available funds on deposit at bank. (Dorley MC.Johansen:2000 p.p 21 3-1 4)

Cash is a very crucial asset in a day to day operation of the firm, and the basic input required to run the business continuously and also the ultimate output expected to be realized by selling the service or product manufactured by the firm.

Cash is generally means of money, the coin and currency used as medium of exchange in a country in which the firm does a business and it is a very important component of assets.



### 2.1.1 Components of cash

Cash is not only coins and paper money, but also includes cheese, money orders. Near cash assets which can be easily convertible in to cash are also included in cash such as marketable securities and banks time deposits.

### 2.1.2 Nature of cash

Cash is more susceptible of theft than any other assets that require cares and close control due its high value of money in relation to its mass and easily transferability and most liquid asset to be diverted and misappropriate by unethical employees.

### 2.1.3 Reason of holding cash

#### 2.1.3.1 Transactional motive

The transactional motive requires a firm to hold cash to conduct its business in the ordinary course. The firm needs cash primary to make payment for purchase and expends. The need to hold cash would not arises, if perfectly harmonization between cash receipts and cash disbursements.

However since cash receipts and cash payments are not perfectly matched the firm should maintain some cash balance to make the required payment.

#### 2.1.3.2 The precautionary motive

It refers to the need to hold cash to meet any contingencies that arises in the future. The contingencies may arises when security market changes.

#### 2.1.3.3 Cost of holding cash

When a firm holds in excess of some necessary minimum, it incurs an opportunity cost. The opportunity cost of excess cash is the interest income that could be earned in the next use, such an investment in marketable securities.

Why would a firm hold cash in excess of its compensating balance requirement? The answer is that a cash balance must be maintained to provide liquidity necessary for transaction needs paying bills. If the firm maintains to small a cash balance, it may run out of cash.

Activity such as selling marketable securities and borrowing involves various costs. To determine the appropriate cash balance, the firm must weigh the benefits of holding cash against this cost.

#### **2.1.3.4 Forecast**

Cash forecasts are essential to prepare a cash budget. Cash forecasting may be done either on short-term or long-term bases. Generally, short-term forecasts are prepared for a period of one year or less and long-term forecasting is done for a period of one year and above.

##### **A. Short term forecasting**

There are two methods of short-term forecasting which are i) receipt and disbursement method and ii) adjusted net income method

##### **i) Receipts and disbursement method**

In many firms, cash inflow and outflow occurs on a continuous basis. The flow is summarized for a determined period, by showing the receipts and disbursement.

This method is most suitable for a firm where each item of its income and expenses involve flow of cash. Under this method, each item of receipts and payments is forecast. The primary source of cash receipts is sales; hence sales forecast is the first forecast to be made. At the time of making sales forecast, both cash and credit sales should be taken into account.

##### **ii) Adjusted Net income methods**

This method of cash forecasting involves the tracing of working capital flows,

The three steps under this method are

Estimating source of cash

Estimating use of cash and

Arriving at the next income

## **B. Long term cash forecasting**

Long term cash forecasting is prepared in order to know about the firm's financial requirements of distant future. The duration of forecasts depends on the individual firms, but it may be range from two to five years.

The main advantage of preparing long-term forecasting are:-

It indicated the firm's future requirements, particularly its working capital requirements.

By showing the cash inflow and outflow involved in capital project, it assists in evaluating those projects.

## **2.2 Features of strong cash management**

### **2.2.1 Definition of cash management**

To be optimal, companies must use different method of cash management techniques like preparation of cash budget, investing idle cash indifferent financial instrument.

The transaction motive is the desire of an economic actor to maintain sufficient funds in a bank account in order to write checks on that account for daily needs and wants. A person with higher income has a greater transactions motive than a person with lower income,; that is, that person wants to have more money in order to spend more.

In Keynesian economics, the transactions,

Speculative motive definition is a desire to hold cash in order to be poised to exploit any attractive investment opportunity requiring a cash expenditure that might arise.

Precautionary motive is a need to hold cash in order to be able to deal effectively with unexpected events that require cash outlay and

Cash management is broadly affected by entities board of directors and management bodies and other personnel designed to provide reasonable assurance regarding the achievement of the organization goals.

Cash management practice helps the entity in the following ways,

- > Effective and efficiency of the organization operation

- > Reliable financial reporting
- > Compliance with application of laws and rules
- > Effective communication also must occur flowing down, across and up the organization. All personnel must receive a clear message from management that control responsibilities must be taken seriously.

### **2.2.2 Concepts of cash management**

Cash management seeks to accomplish a cash cycle at a minimum cost that cover cash position to keep the firm sufficient liquidity and to use excess cash in some profitable.

The facets of cash management for which the management has to evolve the strategies:-

- > Cash planning - cash budget has to be prepared depending on the planed cash inflow and outflow
- > Managing the cash flow - the cash flow has be accelerated and cash out flow has to be decelerated taking in to consideration the customers demand that enhances cash cycle and early collection of cash.
- > Optimize cash level - the firm should decide the optimize appropriate level of cash balance in order to avoid ether cash excess /idle and cash deficiency. (Darley MC. Johansen 2000 P.P. 213-14)

### **2.2.3 Purpose of cash management**

Managers of a corporate company's along with finance departments are entirely responsible for cash management.

Cashmanagement essentially means dealing with an organization's cash so its use provides the most value to the business. This can mean planning to keep the right amount of cash on hand as well as making plans for the cash the company does not need to have available for business operations.

Cash managers plan for, protect, and invest cash assets. Basic parts of planning for efficient cash management include knowing how much cash should be on hand, handling cash transactions in an efficient manner, and investing any surplus cash in securities that will grow the value of the company's money.

Managing cash involves managing the liquidity, or cash assets, available to the company. When cash management is performed properly, a company has the

money it needs to conduct daily business and account for unexpected expenses while earning investment money from extra cash. Poor cash management can cause a company to fall short of the money it needs to conduct business. It can also place a company at risk for cash losses like theft or embezzlement.

Cash is a toll to help an organization succeed, but it does have a cost which is an interest expense. Managing cash electronically requires computer systems, software, and often banking organizations.

Since cash has a maintenance cost, cash management professionals often offset this cost by investing extra cash in securities that will grow the organization's investment.

Investments used in cash management can be properties and physical goods, but most often involve common investments like stocks and bonds.

#### **2.2.4 Cash management mechanisms**

Cash management policies and procedures depend on the nature and business size of the organization objective.

Some of the fundamental cash management pertained to companies are:

1. Establish responsibilities
2. Maintain adequate records
3. Establish separate record keepings
4. Apply technical controls

These components of fundamental cash management procedures can minimize the degree of risk of fraud and theft of cash and also insures the reliability and accuracy of accounting records.

Establish responsibilities : proper cash management controls means that the responsibilities of for task is clearly established and assigned to a person. If responsibility is not identified, determining who is responsible for any embezzlement of cash in any case is difficult. (Stanley B & Geoftrey 1992 P.P 122-25)

Assume if any two sales share the same cash register, identifying which clerk is made fault for cash shortage is difficult neither clerk can prove or disprove the supposed cash shortage.

In order to minimize of avoid this problem; one mechanism is to assigned on clerk must be given the responsibility of handing all cash sales.

**Maintain adequate records:** Good record keeping is one part of cash management system in any company undertaking cash transaction. Reliable records are also a source of information that managers use to monitor and assess cash management of the organization. When detailed record is kept for cash, detection of any cash fraud is likely complicated.

**Establish separate record keepings:** one of the important fundamental principles of cash management is that a person who controls or has the access to cash must not keep the accounting records. This procedure reduces the risk of theft or fraud of cash due to the person who control over cash determines can easily detects any variation if it happened.

**Apply technical controls:** cash registers, cheque protectors, time clocks and personal identification scanners are some examples of devices that can assist in cash management practice in an organization. This technology often improves effective control mechanism over cash.

A cash register with a locked-in tape or electronic file makes a record of each cash sale.

A cheque protector perforates the amount in to its face makes difficult to alter the amount on the cheque.

A time clock registers the exact time an employee both arrives and departures from the work place and currency counters quickly and accurately counts amount and the personal identification limits each employee only access to the only authorized individuals.

### **2.2.5 Limitation of cash management**

Cash management can do much to protect cash against fraud and manage proper utilization of cash for set objective of an organization and assures the reliability of accounting records. However, still there is existence of inherent limitations in any cash management structures.

Errors might be made in carrying out the performance of cash management practices and procedures as the result of carelessness, misunderstanding of instructions or other human factors. The effectiveness of any cash management system subjected to certain inherent limitations including management override including personnel errors or mistakes.

However cash management is process of managing cash flow by controlling expenses, minimizing taxes, and reducing the cost of debt, to ultimately create more bottom line savings, top management sometimes are unsuccessful either because of inefficiency or intentionally for their own interest.

### 2.3 Collection and Disbursement

Cash collection systems aim to reduce the time it takes to collect the cash that is owed to the firm (for example, from its customers). The time delays are categorized as mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly. Likewise, the moment the firm receives payment it is not deposited in its bank account. And finally, when the payment is deposited in the bank account oftentimes the bank does not give immediate availability to the funds. These three "floats" are time delays that add up quickly, requiring the firm in the meantime to find cash elsewhere to pay its bills. Cash management attempts to decrease the time delays in collection at the lowest cost. A collection receipt point closer to the customer, such as a lock box, with an outside third-party vendor to receive, process, and deposit the payment (check) will speed up the collection. For example, if a firm collects \$10 million each day and can permanently speed up collections by five days, at 6 percent interest rates, then annual before-tax profits would increase by \$3 million. The techniques to analyze this case would utilize data involving where the customers were, how much and how often they pay; the bank they receive checks from; the collection sites the firm has (their own or a third-party vendor); the costs of processing payments; the time delays involved for mail, processing, and banking; and the prevailing interest rate that can be earned on excess funds.

Once the money has been collected, most firms then proceed to concentrate the cash into one center. The rationale for such move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus. There are numerous mechanisms that can be employed to concentrate the cash, such as wire transfers, automated clearinghouse transfers, and checks. The tradeoff is between cost and time.

Disbursement is the opposite of collection. Here, the firm strives to slow down payment. It wants to increase mail delays and bank delays, and it has no control over processing delay.

Another aspect of cash management is knowing the optimal cash balance. There are a number of methods that try to determine the magical cash balance, which should be targeted so that costs are minimized and yet adequate liquidity exists to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity. There are numerous ways to measure this, including: cash to total assets ratio, current ratio (current assets divided by current liabilities), quick ratio (current assets less inventory, divided by current liabilities), and the net liquid balance (cash plus marketable securities less short-term notes payable, divided by total assets). The higher the number generated by the liquidity measure, the greater the liquidity and vice versa. There is a tradeoff, however, between liquidity and profitability that discourages firms from having excessive liquidity.

## **2.5 Short - term investment Decisions**

A key cash management problem (including how much money and for how long) concerns in which money market instruments should the temporary excess funds be placed. This short-term investment decision necessitates the analysis of return (need to annualize returns in order to compare) and liquidity. Only short-term investments meet the liquidity test, as long-duration instruments expose the investor to too much interest rate risk. In addition, federal government obligations are popular due to the absence of default risk and ease of resale in the secondary market. Nonetheless, there are numerous money market securities available with varying characteristics from many types of issuers.

Cash Management is evolving with the increasing acceptance and use of electronic payments, such as debit cards. Shifting from paper-based payments to electronic transfers reduces the uncertainty in cash flow forecasting. The change in form of payment decreases both float and per item transaction costs. Stumbling blocks to the complete switchover to electronic payments include the initial equipment investment for businesses and resistance by consumers who still prefer checks. Nevertheless, the use of electronic versus paper payments is gaining, affecting the importance of current cash management techniques.



Cash management in the U.S has been shaped by the structure of the domestic banking system, the U.S postal Service, and the prevalent use of checks or payment. The U.S. is unique in its large number of banks with limited national branch banking audits convention of bill payment primarily by check through the U.S mail. Legislative and regulatory influences have also played a major role in the development of current cash management practices and continue to do so today. Modern cash management can be traced back to 1947, when the radio Corporation of America (RCA) set up a lockbox collection system for dealer to deposit payments on loans to finance inventory. Payments were mailed to a special post office box set up exclusively for these payments. The bank collected the mail directly from the post office box and deposited the checks directly into RCA's bank account. Cash management responded to rising interest rates in the 1960s and 70s by becoming increasingly sophisticated. Corporations recognized cash as an asset able to generate income and saw that there could be a monetary return for actively managing cash. Many of the banking products used by cash managers today were developed during this period of runaway inflation: controlled disbursement, funds concentration, real-time transaction reporting, and electronic payments. Later, financial markets erupted with innovative instruments and products. The introduction of Negotiable certificates of Deposit (CD) were the result of banks managing their assets and liabilities more aggressively. A secondary market for trading these instruments quickly developed as corporate treasurers realized they could invest otherwise idle bank deposits in these relatively risk-free instruments and, if necessary, have access to the funds before maturity. Cash managers were offered many new investment options, including banker's acceptances, repurchase agreements, and commercial paper. The explosion of desktop computing in the 1970s and '80s, coupled with corporate computer applications development, made a major impact on cash management. Cash managers could now easily concentrate bank balances into a central account by electronic funds transfer, retrieve information automatically from banks on a timely basis, and perform transactions in real-time and on-line. The electronic spreadsheet streamlined the generation of cash position reports and analytical tasks such as cash forecasting, which provided management critical information for strategic planning. In the 1990s, the financial environment turned its focus to risk management: bank creditworthiness, payments system risks, and use of derivatives to hedge against financial risks more precisely. Security concerns generated a flurry of legislative and regulatory activity. At the beginning of the 21st century, cash management has developed a global

emphasis, as the world's capital markets become more closely aligned and local economies have become so broadly international. Technology, including the internet, is now used extensively in cash management in most enterprises.

Technological enhancements have led corporate management to expect even more from their treasury departments. The efforts toward benchmarking, re-engineering, and outsourcing that began in the late 1990s continues to gain momentum. What is Basic?

## **2.7 Cash Management process**

Every successful company has a pool of cash that sustains the day-to-day activities of business. It grows with receipts from sales and contributions and shrinks with expenditures for inventory, marketing, labor and other expenses. The uncertainty of cash inflows and outflows creates the challenge of ensuring that sufficient funds are available at all times to support the operating cycle. Cash flows of both types must be closely managed. There are a variety of cash management tools and techniques to assist in this process, which will be discussed later. Borrowing becomes necessary when cash flow falls short of covering disbursements, when incoming funds exceed the outflow, cash is used to repay borrowings or purchase short-term investments until the cash is needed to cover future expenses. Financial officers need timely information to properly control and use their funds throughout the cash flow cycle. The basic cash management process provides that timely information. The cash flow timeline includes the total time interval beginning with the first phase of the operating cycle, when resources are purchased, until the last step when receipts are collected. It consists of the following steps:

1. **Material purchases.** Acquisition of raw materials or merchandise for resale includes negotiation of the method of payment, credit terms and trade and payment discounts.

Payment for resources. All resources required to support sales, including labor, marketing and overhead expenses, incur financing costs until cash is collected for sales made. By managing the timing of disbursements, the cash manager can minimize implicit financing expenses.

2. **Sale of inventory or services.** Merchandise and other sales are most frequently accomplished by extending credit to customers. The timing of accounts receivable collection is a major focus in cash management.

3. Collection of receipts. Only when the customer has provided good funds for the merchandise or service does the cash flow

Cycle conclude for that transaction. The cash flow and operating cycles are similar. The cash manager focuses on the timing of the

Cash flows related to accounts payable, accounts receivable and inventory turnover.

## Operations

Managers concentrate on the timely availability of materials and resources and sales volumes, relying on the cash manager to ensure adequate liquidity to support operations. Cash forecasting is based on understanding both the operating and the Cash flow cycle

The most critical component in

## Cash Management

Float is the time interval between the start and completion of each step in the cash management cycle. The management of float is the management of cash. Each cash management system is designed to improve the flow of cash by accelerating the collection of funds and extending the disbursement float.

There are two categories of

Float: Collection float and Disbursement float, each with several components. Collection float is the time spent to collect receivables. Collection float is the sum total of time taken by the following four components:

1. Invoicing float is the time period between the delivery of goods or services to the customer and the customer's receipt of the bill, generally by mail. It is the time it takes accompany to record its delivery of service or goods and then to produce and mail a bill.

Typically, the cash manager has little control over this function, although it is generally the Collection float component with the longest duration. Cash managers have focused almost exclusively on the remaining three components.

2. Mail float is the time it takes the U.S. Postal Service to deliver the customer's payment.

3. Processing float is the

Period between the receipt of the payment and deposit into the company's bank account and includes the time it takes to record the payment in the accounting system.

4. Availability float is the time it takes the deposited check to clear the customer's account and for good funds to be available to

The company for disbursement as early as 1947, RCA set UP a lockbox collection arrangement to accelerate the receipt and processing of payments. The objective was to shorten the float for mail, processing, and availability. Current lockbox services and products still concentrate on these areas. Disbursement Float is the time it takes a company's payment to be created, received, deposited and presented to the drawee bank for settlement. Thus collocation float and disbursement float refer to the same processes and time intervals depending on point of clew: For the company receiving a payment, collection float represents the time it takes an invoice to be prepared, to reach the customer, to receive payment and for the payment to clear the bank.

## **2.8 How are Cash Management Systems established?**

For funds management to be as efficient as possible the flow of funds must be accomplished as passively as possible. In establishing the corporate bank account configuration, the focus should facilitate the automated movement of funds. Separate accounts are established for different business functions: payroll, retail outlets depository accounts, accounts payable disbursements, and lockbox receipts. By maintaining separate accounts, account reconciliation to the general ledger balance is accomplished more easily and in some cases, can become an automated daily process. Fraudulent activity and unauthorized transactions are more readily apparent and detected with less effort, improving overall audit trails and internal control.

## Chapter Three

### Data Presentation, analysis and Interpretation

This unit is the main part of the study in which actual discussion of the cash management system and interpretation of data from the questionnaire is made. The respondent's general characteristics such as sex, education level, work experience and position in the bank are viewed in detail. Furthermore, the research problem is analyzed based on the questioners presented and interpretation is given for each and every respondents. In addition, secondary data were used from the bank bulletin as per our plan in chapter one above. Most part of this unit contains the data interpretation of the study based on response from respondents.

#### 3.1 General characteristics of the respondents

##### 3.1.1 Sex

**Table 1.1 Respondent's Sex Distribution**

ITEM	Number of Respondent	Respondent in %
Sex		
Male	11	73%
Female	4	27%
Total	15	100%

Source: Own Survey

From the above table we can see that 73% of the population is male and 27% of the population is female. This shows that both sex is considered in our study which will help us gather different views.

##### 3.1.2 Educational Level or Qualification

**Table 1.2 Respondent's Educational Level**

ITEM	Number of Respondent	Respondent in %
Educational level or qualification		
Certificate		
Diploma	3	20%
Degree	10	66%
Second Degree & Above	2	14%
Total	15	100%

Source: Own Survey

From the above table we can see that 20% of the population is Diploma holder, 66% of the population is Degree and 14% of the population is Second Degree & Above holder. This implies that most of the employees are in a very good academic status which contributes a lot to the cash management system of the bank. In addition the educational level we considered was diversified which will help us collect data from all levels of respondents.

### 3.1.3 Work Experience

**Table 1.3 Respondent's Work Experience**

ITEM	Number of Respondent	Respondent in %
Work Experience		
Below 2 years	4	27%
2-5 Years	7	46%
Above 5 Years	4	27%
Total	15	100%

Source: Own Survey

From the above table we can see that 73% of the population are well experienced and this implies that the cumulative experience will help the bank manage its cash properly, furthermore the experience level considered will enhance the credibility of the data collected.

### 3.1.4 Position In the Bank

**Table 1.4 Respondent's Work Position**

ITEM	Number of Respondent	Respondent in %
Position		
Branch Manager	2	13%
Chief cashier	2	13%
Teller	8	53%
Customer Service officer	3	21%
Total	15	100%

**Source: Own Survey**

From the above table we can see that the population is composed of different staffs in the cash management area. This implies that the respondents working position is not concentrated to a specific post this will positively assist the quality of data collected.

### **Branch Manager**

The branch manager is selected and assigned based on the requirement of quality manager criteria and basically he is responsible for dual holding the cash vault key and manages the cash holding limit at branch level.

### **Chief cashier**

In collaboration with the branch manager, the chief cashier is dual key holder and he is accountable for managing and administering the cash balance and collecting and paying cash in the branch to head office and tellers.

### **Teller**

The teller is responsible to the routing activities such as collect cash from customer and pay at the same time and surrender all cash to the chief cashier at the end of the business day.

### **Customer service Officer**

The teller is responsible to collect cash from customer and pay at the same time and surrender all cash to the chief cashier at the end of the business day.

## **3.2 Cash Management System**

A good system of cash management is a critical component of the bank management and a foundation for the safe and sound operation of the banking organization. The uncertainty of cash inflows and outflows creates the challenge of ensuring that sufficient funds are available at all times to support the bank's operating cycle. Thus cash management system must include planning, accounting and controlling of cash transactions and cash balances.

Currently the bank collects cash from branches which are holding above their cash limit. The head office in turn transfers excess cashholding to national bank of Ethiopia which is above its cash holding limit. Almost all branches have insurance coverage for their cash limit. As the cash holding limit increases the insurance cost also increases. As per data collected from the respondents insurance premium is paid based on the amount of cash that is in the branches or head office vault hence as the balance in the branch increases the amount paid for insurance also increases because if a risk happens the insurance company needs to compensate that.

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Yes	No	Yes	No	
Dose the bank have well organized chart of account?	15	15	0	100%	0	100%
Dose the bank have organized accounting System?	15	15	0	100%	0%	100%
Dose The banks Head Office Control the cash limit of the branch?	15	3	12	80%	13%	100%
Dose the bank have an internal auditor or Equivalent post?	15	15	0	100%	0	100%
Explain Briefly actions taken by head office on branches having excess cash	15	0		0	100%	100%
Total	15					100

**Source: Own Survey**

From the above table and the data collected we can see that 100% of the populations agree that the bank has a well-established chart of account and accounting system. The data collected also states that the bank has internal auditors. Even though the banks head office is responsible for controlling and taking action on branches having excess cash as per the data collected from respondents 80% of the respondents stated that the bank doesn't control the cash holding limit of branches and in almost 100% of the cases no action is taken on branches having excess cash. Almost 100% of the respondents stated that the banks head office takes no action on branches holding excess cash. From the above table we can see that even though the bank has a well-established accounting system it is not properly controlling the cash limit and excess cash maintained at branches. As per our literature review such incidents force the bank to pay unnecessary insurance premium and interest on idle cash. Hence, the bank needs to control via its internal auditors branches having cash above their holding limit and transfer them to head office.



### 3.3 Effect of the current cash management system on the banks operations

Another aspect of cash management is knowing the optimal cash balance. There are a number of methods that try to determine the magical cash balance, which should be targeted so that costs are minimized and yet adequate liquidity exists to insure bills are paid on time. A smooth bank operation contributes a lot to the banks growth and increase the base for a satisfied customer. The banks income is generated from a diver's source of operations in the bank. These various bank operations need a timely payment of cash to different customers on a timely basis. A good cash management system has to create a harmony on the cash demanded by the operation. Currently some branches have to wait long in order to get cash from head office as there is cash shortage at head office and shortage of resource to supply at different times

**Table 1.6 Effects of cash Management on Banks operation.**

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Yes	No	Yes	No	
Dose the banks head office maintain the required amount of Cash/Money	15	6	9	40%	60%	100%
If Your answer is no what is the possible cause	15	6	9	40%	60%	100%
Dose the banks head office supply the required cash to branches on a timely basis?	15	3	12	20%	80%	100%
If No briefly explain	15	3	12	100%	0	100%

**Source: Own Survey**

From the above table we can see that 60% of the population agree that the bank does not have enough cash at head office for different request from branches and 40% state that the bank has enough cash. 60% of the respondents stated that as cash at branch is not controlled and collected by head office the head office is facing a serious problem of maintain enough cash. furthermore 80% of the respondents state that the banks treasury is having a problem of supplying cash on timely basis and 20% state that the treasury

supply on time.80% of the respondents stated that branches are not supplied with the cash they require on timely basis as the head office treasury is having cash shortage and vehicles that transport cash to branches. From the above table we can see that branches are having a serious problem of getting the required cash from the head office. This will distort the bank's image in many ways.

### 3.4 Cash custody.

The cash vault is safe and strong which is also under a dual control of the branch manager and the chief cashier. as per the bank manual and different discipline access to the cash area is restricted to a few staffs. as per our data collection the bank has marks on cash area stating no entry except authorized staffs.

**Table 1.7 Cash custody**

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Yes	No	Yes	No	
Are adequate physical facilities such as a safe provided for safeguarding cash ?	15	15	0	100%	0%	100%
Are safe combinations and keys to lock boxes restricted to a minimum numbers of employee	15	15	0	100%	0%	100%
Are there any surprise cash counts every month?	15	3	12	20%	80%	100%

**Source: Own Survey**

From the above table we can see that 100 % of the respondents agree that the bank is using adequate physical facilities such as safe for safeguarding cash and combination and key to lock boxes that are restricted to a minimum number of employees. However 80% of the respondents stated that the bank has weakness regarding surprise cash count which is to be conducted every month. From the above table we can conclude that the bank is using a proper cash safe guarding facilities but the weakness witnessed on cash count should be rectified as per our literature review by at least applying a surprise cash count as cash is one of the most liquid asset in the bank. Dorley MC. Johansen:2000

The cash management system has three main systems apart from cash collection and investment one of the major subsystem component is cash disbursement, even though Buna bank uses different techniques to disburse cash from the head office to different bank branches currently the bank disbursement techniques needs especial attention to capitalize on excess cash at branches. Disbursement is the opposite of collection. Here the bank strives to slow down payments. It has no control over processing delay. The bank transfers cash via CBE and other private banks to outlying branches and physical distribution by Vanwithin city branches. Transfer of cash is only possible from branch to head office and from head office to branches such cost are increasing.

**Table1.8 disbursement and collection**

ITEM	Number of Respondent	Respondents response		Respondents in %		Total%
		Yes	No	Yes	No	
Does the bank use the least cost to transfer cash to head office and vice versa?	15	4	11	27%	73%	100%
If your question to the above was no what solutions do you recommend	15	4	11	40%	60%	100%
Does the bank have enough facility to distribute and collect cash from branches?	15	3	12	20%	80%	100%
If your question to the above question was no what solutions do you recommend	15	3	12	20%	80%	100%

**Source: Own Survey**

From the above table we can see that 80% of the population state that the bank is having a problem regarding cost and resource for transferring money to head office. As stated in the above table 60% of the respondents stated that The bank is incurring a huge cost of transferring cash to head office both in the form of bank charge and different expenses paid for vans that collect cash from branches. so the bank should use electronic payment system, and enhance the resource required in transporting cash b/n branches. The remaining 20% state that the bank is not experiencing the cost issue. Furthermore 80% of the respondents stated that the bank has no enough facility to distribute and collect cash from branches and vice versa but 20% stated that the bank doesn't have such a problem. Accordingly 80% of the respondents stated that the bank should purchase additional van, employee support staffs and create different cash collection and distribution centers apart from head office to further enhance the cash collection and distribution. But the remaining 20% have no objection with the current system.

### 3.6 Theoretical Relation of the current cash management System.

Most accounting principles dictate that idle cash should be invested in both short term and long term basis. Such investments generate income for the bank and reduce cost of doing business. Currently Bunnan bank is not that effective in investing some of the idle cash at branch level.

**Table1.9 Theoretical Relation**

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Yes	No	Yes	No	
Dose the bank Invest idle cash when needed	15	3	12	20%	80%	100%
If your answer is no what solution do you suggest	15	3	12	20%	80%	100%

**Source: Own Survey**

From the above table we can see that 80% of the populations suggest that the bank is not generating the most out of its idle cash. But 20% of the respondents stated that the bank is collecting proper income from its idle cash. Regarding solution suggested by respondents 80% of them state that the bank should see the opportunity cost of the idle cash maintained at branches and invest them on a short term income generating markets. A key cash management problem (including how much money and how long) concerns in which money market instruments should the temporary excess funds be placed (DorleyMC.Johansen :2000 p.p 230-32)

### 3.7 Cost effectiveness of the current cash management system.

Managers of a corporate company's along with the finance departments are entirely responsible for cash management. Organizations like Bunna bank should maximize the profit generation of the bank by applying a less costly systems .Currently the bank is transferring excess cash maintained in different branches by local transfer via other banks and by physically collecting and distributing to branches in need .The cost of moving such a huge money around is very significant unless managed properly.

**Table1.10 Cost effectiveness**

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Yes	No	Yes	No	
Do you think the current mechanism of transferring cash b/n H.O and branch is cost effective.	15	3	12	20%	80%	100%
If No Give brief explanation	15	3	12	20%	80%	100%
Dose the bank Generate the required income from idle cash?	15	3	12	20%	80%	100%
If No Give brief explanation	15	3	12	20%	80%	100%

**Source: Own Survey**

From the above table we can see that 80% of the population responded that the current practice in transferring cash to head office is very much costly, therefore the bank should apply a less costly wayof handling such transactions, while 20% of them stated that the current practice is not affecting the bank. Regarding opinions given by therespondents 80% of them stated that as the bank is expanding in terms of branch opening the bank should arrange special centers that handle the cash request of branches both in collection and supplyfurthermore using different means of transfers like electronic way of channeling and allowing branches to perform on claim basis. From the above data we can further see that 80% of the respondents stated that the bank is not generating the required income from idle cash.80% of the respondents' state that the reason for not generating the required income from idle cash is that as the branches and head office is not properly channeling the cash on hand at the right time income from short term investment is under generated. According to our literaturethe bank should decide the optimum

appropriate level of cash balance in order to avoid either cash excess or cash shortage.

### 3.8 Effect of cash management on the Banks Performance.

Cash in the financial institutions like bunna bank are a highly liquid asset that needs to be monitored, evaluated and audited in order to apply all these things. The cash management system is with no doubt mandatory. The current effect of cash management in bunna Bank's performance is that it is costing the bank both in terms of cost and in distorting the image of the bank as branches are not paying some of their customers on a timely basis.

**Table 1.11 Performance effect**

ITEM	Number of Respondent	Respondent		Respondents in %		Total%
		Positively	Negatively	Positively	Negatively	
In what way does cash shortage and overage affect the performance of the bank?	15	0	15	0%	100%	100%
Briefly explain the effect of Bank charge on the bank's income performance.	15	0	15()	0%	100%	100%

**Source: Own Survey**

From the above table we can see that 100% of the population agree that cash shortage and overage affects the bank by increasing the cost of doing business. 100% of the respondents stated that cash shortage and overage affects the bank because some branches struggle to pay cash at branches which will destroy the bank's image and affect the potential customer base and decrease the overall income of the bank. In addition, all (100%) respondents stated that bank charges are expenses that offset the revenue of the bank; therefore, as these charges increase, they will affect the income of the bank.

## Chapter Four

### 4.1 Summary of findings, conclusions and recommendation.

In this section of the research report the major findings of the research are summarized and conclusion and recommendations are made.

The objective of this study is to assess the cash management system of Bunna international bank S.C.

#### The Major findings of the research are summarized as follows.

The company uses a proper chart of account and a computerized accounting system to record its business transactions. The Banks head office treasury is the responsible organ to control the cash holding limit of branches and no action is taken compared to what on branches holding excess cash. In comparing within the limit of the branch lowering the yield of idle cash.

- > Cash is disbursed to branches based on their request and excess cash is collected from branches. The delivery time of cash requested by branches and the supply is not efficient due to cash shortage at head office treasury.
- > The bank uses a proper cash custody but fails mostly in conducting a surprise cash count every month.
- > The current system of transferring cash to and from head office is costly ,which is forcing the bank to incur a huge cost of bank charge and others.
- > The bank has no enough facility to supply and distribute cash to and from branches& head office.
- > Bothe branches and Head office have cash holding limits. Excess cash is observed in some branches while some branches struggle to make their daily payments.
- > Idle cash is not invested. Proper income is not generated from the idle cash in the bank.

## 4.2 Conclusion

The study was undertaken with the intention of assessing the cash management system of Bunna International Bank S.C. To do so the various aspects of cash management system are studied as thoroughly as possible, and are compared with theories drawn by disciples in related areas concerning the cash management system of the bank.

Generally from the gathered data and from the analysis we have found the following.

- > Excess cash is observed in branches
- > The disbursement & collection subsystem in the cash management of the bank is inefficient.
- > A huge cost of moving cash from branch to head office and vice versa
- > Unnecessary cost paid for cash holding limit
- > The overall performance of the cash management process is ineffective. The current cash management system fails to serve the objective of maintaining adequate cash.
- > Branches in the study mostly hold idle cash.
- > A week audit report in cash areas.

## 4.3 Recommendation.

Based on the findings of the research we would like to recommend possible solutions that we have assessed on the basis of other similar organization like NBE trend and different scholars principles stated in our literature reviews in order to overcome the problems occurring in the cash management system of the Bank.

- > The bank should facilitate a means for branches to invest some of their excess cash on a short term basis at branch level.
- > Keep the cash holding limit of branches as minimum as possible both to reduce the insurance cost and reduce cash holding limit.
- > Allocate fund for additional resources such for the purchase of Vans to harmonize the disbursement and collection of cash.
- > Allow city branches to transfer their excess cash to other city branch on claim basis to avoid shier shortage.
- > Establish different cash collection and distribution centers that assist the head office treasury.
- > Attention should be given to internal control reports over cash since it is the corner stone of cash management.



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# APPENDIX

**St. Mary's University**  
**Facility of Business Department of Accounting**  
**Questionnaires for Buna International Bank Employee**

These questionnaires are prepared by under graduate degree students in order to collect data for the research entitled cash management practice case study on Buna International Bank S.C. to be prepared in partial fulfillment of B.A. degree in accounting. All information you give is invaluable for the academic purpose and kept confidential. The validity of your response will highly contribute for success of this research paper we would like to ask with due respect for you to give your genuine response.

**Thank you in advance for your cooperation**

**Basic rules**

- Writing your name is not needed
- Put the liker scale ( ) in your appropriate response
- If you have additional idea to add please don't hesitate

**Personal information**

Sex meal                      Female

**Qualification**   Certificate                      Diploma                      First Degree  
Second degree & Above

**Position in the Bank** \_\_\_\_\_ **branch**

**Work Experience**   below 2 years      2-5 Years      Above 5  

**Specific information**

**1. Question related with cash management of the bank**

- a. Does the Buna have an organizational chart?
- Yes                      No
- b. Does the Buna have a chart of accouts or an organized financial accounting system?
- Yes                      No
- c. Dose the Banks Head office control the cash limit of the branch?

Yes

No

d. Does the bank have an internal auditor or equivalent post?

Yes

No

e. If yes are there internal audit reports available?

Yes

No

f. Do you think cash management has effect of on the performance of the Bank?

Yes

No

## **2. Questions related with the effect of the current cash management on the banks operation**

a. Does the Banks Head office maintain the required amount of money?

Yes

No

b. If Your answer the above question is No what is the possible cause.

c. Dose the Banks Head office supply the required cash to branches on a timely basis?

Yes

No

If No Explain why

## **3. Question related with cash custody**

a. Are adequate physical facilities such as a safe or a locking drawer provided for safeguarding cash?

Yes

No

b. Are safe combinations and keys to lock boxes restricted to a minim numbers of employees.

Yes

No

c. Are there any surprise cash count every month?

Yes

No.

## **4. Questions related with cash disbursement and collection b/n head office and branches**

a. Does the bank use the list cost to transfer cash to branched and vise verse?

Yes

No

c. Dose the Bank enough facility to distribute and collect cash from branches

Yes

No

d. If No, what solution do you recommend ?

## **5. Question related with the theoretic relation of the current cash management system**

A. Dose the invest idle cash when needed?

Yes

No

If No what solution do you recommend

## **6. Question related with the cost effectiveness of the current system**

a. Do you think the current mechanism of transferring cash b/n H.O and branch cost effective

Yes

No

b. If your answer is no what is the reason?

c. Dose the bank generate the required income from idle cash?

Yes

No

If your answer is no what is the reason?

## **7. Questions related with effect of cash management of the performance of the bank.**

a. In what way dose cash shortage at branch and H.O. affect the performance of the bank?

Explain-----

b. What is the effect of Bank charge on the banks income performance Explain

## DECLARATION

We the undersigned declare that this senior essay is our original work, prepared under the guidance of W/ro Yeserash Alemu. All Sources of the materials used to the manuscript have been dully acknowledged.

Name: \_\_\_\_\_ Signature. \_\_\_\_\_

Name: \_\_\_\_\_ Signature. \_\_\_\_\_

Name: \_\_\_\_\_ Signature. \_\_\_\_\_

Place of Submission

St Mary's University Faculty of Business Department of Accounting

Date of Submission

02/June/2014

Advisor's Declaration

The paper has been submitted for examination with my approval as the  
university advisor

Name: \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_



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